

§ 120.707

third parties, such as filing and recording fees.

§ 120.707 What conditions apply to loans by Intermediaries to Microloan borrowers?

(a) *General.* An Intermediary may make Microloans to any small business eligible to receive financial assistance under this part. Proceeds from Microloans may be used only for working capital and acquisition of materials, supplies, furniture, fixtures, and equipment. SBA does not review Microloans for creditworthiness.

(b) *Amount and maturity.* Generally, Intermediaries should not make a Microloan of more than \$10,000 to any borrower. An Intermediary may not make a Microloan of more than \$15,000 unless the borrower demonstrates that it is unable to obtain credit elsewhere at comparable interest rates and that it has good prospects for success. An Intermediary may not make a loan of more than \$25,000, and no borrower may owe an Intermediary more than \$25,000 at any one time. Each Microloan must be repaid within six years.

(c) *Interest rate.* The maximum interest rate that can be charged a Microloan borrower is:

(1) On loans of more than \$7,500, the interest rate charged on the SBA loan to the Intermediary, plus 7.75 percentage points; and

(2) On loans of \$7,500 or less, the interest rate charged on the SBA loan to the Intermediary, plus 8.5 percentage points.

§ 120.708 What is the Intermediary's financial contribution?

The Intermediary must contribute from non-Federal sources an amount equal to 15 percent of any loan that it receives from SBA. The contribution may not be borrowed. For purposes of this program, Community Development Block Grants are considered non-Federal sources.

§ 120.709 What is the Microloan Revolving Fund?

The Microloan Revolving Fund ("MRF") is an interest-bearing Deposit Account into which an Intermediary must deposit the proceeds from SBA loans, its contributions from non-Fed-

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eral sources, and payments from its Microloan borrowers. An Intermediary may only withdraw from this account the money needed to establish the Loan Loss Reserve Fund (§ 120.710), proceeds for each Microloan it makes, and any payments to be made to SBA.

§ 120.710 What is the Loan Loss Reserve Fund?

(a) *General.* The Loan Loss Reserve Fund ("LLRF") is an interest-bearing Deposit Account which an Intermediary must establish to pay any shortage in the MRF caused by delinquencies or losses on Microloans. An Intermediary must maintain the LLRF until it has repaid all obligations it owes SBA.

(b) *Level of Loan Loss Reserve Fund in first year.* In an Intermediary's first year, the balance on deposit in the LLRF must equal not less than 15 percent of the total outstanding balance of all notes receivable owed by its Microloan borrowers.

(c) *Level of Loan Loss Reserve Fund in subsequent years.* In all subsequent years, an Intermediary must maintain a balance on deposit in the LLRF at a level which, at a minimum, reflects its loss experience as determined by SBA. However, the maximum amount required in the LLRF will not exceed 15 percent of the total outstanding balance owed by an Intermediary's Microloan borrowers.

§ 120.711 What rules govern Intermediaries?

Intermediaries must operate in accordance with applicable statutes, regulations, policy notices, SBA's Standard Operating Procedures (SOPs), and the information in the application.

§ 120.712 How does an Intermediary get a grant to assist Microloan borrowers?

(a) *General.* An Intermediary is eligible to receive grant funding from SBA of not more than 25 percent of the outstanding balance of all SBA loans to the Intermediary. The Intermediary must contribute, solely from non-Federal sources, an amount equal to 25 percent of the grant. Contributions may be made in cash or in kind.